

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 IO-14 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 AID-20 CEA-02 COME-00 EB-11 FRB-03

NEA-14 OPIC-12 TRSE-00 CIEP-03 LAB-06 SIL-01 SWF-02

OMB-01 DRC-01 /205 W

----- 075991

R 020807Z AUG 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 3698

INFO USOECD PARIS

USMISSION USEC BRUSSELS

USMISSION GENEVA

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E.O. 11652: NA

TAGS: EGEN PFOR JA

SUBJ: ECONOMIC UNCERTAINTIES ADD TO TANAKA'S POLITICAL PROBLEMS

SUMMARY: GOJ INABILITY (OR UNWILLINGNESS) TO DEVELOP A CONVINCING ECONOMIC POLICY PROGRAM TO DEAL WITH INFLATION AND SLUGGISH DEMAND IS BEGINNING TO BE TARGET OF FORCEFUL CRITICISM BY SOME BUSINESS LEADERS. PRE-ELECTION FORECASTS OF GOOD NEWS FOR BUSINESS IN SUMMER/FALL NOW GIVING WAY TO MORE SOBER WARNINGS OF TIGHT MONEY POLICY FOR PERHAPS AS LONG AS ANOTHER FULL YEAR. SOME RECENT GOJ ACTIONS MAKE BUSINESS WARY THAT GOVERNMENT ONLY PAYING LIP SERVICE TO ANTI-INFLATION POLICY WITH ATTENDANT RISK OF YET ANOTHER WAGE/PRICE SPIRAL IN FALL. FRUSTRATION OF INFLUENTIAL BUSINESS LEADERS HAS INDUCED SOME OF THEM TO QUESTION PUBLICLY WHETHER A NEW POLITICAL COALITION WOULD NOT BE MORE RESPONSIVE TO BUSINESS NEEDS THAN LDP. TANAKA UNQUESTIONABLY AWARE OF THESE RUMBLINGS BUT APPARENTLY

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INTENDS NO MAJOR SHIFT OF ECONOMIC POLICY FOR NEXT

FEW MONTHS. VOCAL DISAFFECTION OF BUSINESSMEN WILL INCREASE POLITICAL PRESSURE ON TANAKA IN POST-ELECTION LDP FACTIONAL MANEUVERING. END SUMMARY.

1. ECONOMIC FORECASTS BY OFFICIAL GOJ AGENCIES AS WELL AS FORECASTS BY MOST PRIVATE JAPANESE BUSINESS AND RESEARCH ORGANIZATIONS FOR SOME MONTHS PRECEDING THE JULY 7 UPPER HOUSE ELECTIONS WERE GENERALLY OPTIMISTIC. THE MAIN THEMES WERE THAT INFLATIONARY PRESSURES ARE MODERATING, TIGHT MONEY POLICY IS DOING JOB EXPECTED OF IT AND CAN PROBABLY BE EASED IN FALL TO PROMOTE FURTHER BUSINESS UPTURN, AND GNP FOR CY OR FY 74 LIKELY TO SHOW REAL INCREASE OF PERHAPS THREE PERCENT OR SLIGHTLY HIGHER. IT IS POSSIBLE THAT OFFICIAL AND PRIVATE FORECASTERS ACTUALLY BELIEVED THIS. IT IS ALSO POSSIBLE THAT THE GOJ, WITH AN EYE TO THE ELECTION, DELIBERATELY HIGHLIGHTED ANY AVAILABLE INDICATOR OF GOOD NEWS AND DOWNPLAYED MORE DISCONCERTING TRENDS, WITH BUSINESSMEN CONSOLING THEMSELVES WITH THE THOUGHT THAT THE GOJ HAD IMPLICITLY AGREED TO EASE THE TIGHT MONEY POLICY AFTER THE ELECTIONS. IN ANY EVENT, BOTH POLITICAL AND BUSINESS LEADERS SEEMED SHOCKED AT APPARENT DEGREE OF VOTER DISCONTENT ABOUT INFLATION.

2. ALTHOUGH PM TANAKA PUBLICLY INTERPRETED ELECTION SET-BACK AS "REFLECTION OF PEOPLE'S IRRITATION AND DISSATISFACTION, ESPECIALLY...AGAINST PRICES," ONLY BROAD POLICY HINT THUS FAR ANNOUNCED BY PM IS INTENTION TO STUDY MATTER CLOSELY FOR COMING MONTH OR TWO, COMPARING EXPERIENCES OF OTHER COUNTRIES ON SUPPLY/DEMAND RELATIONS, INCOMES POLICY, TAX INCREASES AND EFFECTS THEREOF ON PRICES. MEANWHILE, SPECIFIC GOJ ACTIONS SINCE ELECTION FAIL TO REVEAL VERY FIRM INTENTION TO HOLD TIGHT REIN ON PRICES. SIZE OF INCREASE IN PRODUCER PRICE FOR RICE (EU PERCENT), HINTS THAT CONSUMER RICE PRICE MAY GO UP 30 PERCENT, HUGE RAIL FARE HIKE THIS MONTH, WITH UTILITY CHARGES DUE FOR LARGE INCREASES IN FALL AND LEAK THAT MOF INTENDS TO PERMIT "ONLY" A 25 PERCENT INCREASE IN FY 75 BUDGET ALL SEEM TO CAST SOME DOUBT ON GOVERNMENT'S DETERMINATION TO DAMP DOWN PRICE RISES.

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3. BUSINESSMEN (INDUSTRIAL CIRCLES) HAVE LOOKED TO AT LEAST SELECTIVE EASING OF TIGHT MONEY POLICY AS WAY TO ABSORB, VIA NEW EQUIPMENT INVESTMENT, AT LEAST PART OF SPRING WAGE INCREASES AVERAGING OVER 30 PERCENT AND BELIEVE GOJ HAD VIRTUALLY PROMISED THIS WOULD BE DONE SOON AFTER JULY ELECTION. IT NOW APPEARS GOJ HAS NO SUCH INTENTION. NEW FINANCE MINISTER OHIRA DECLARED HIS INTENTION TO

CONTINUE FUKUDA'S TIGHT MONEY POLICY AND FINANCE VICE MINISTER TAKAGI ON JULY 30 DROPPED THE OTHER SHOE IN TELLING BUSINESSMEN MOF INTENDS TO CONTINUE MONEY POLICY WITHOUT RELAXATION FOR ANOTHER FULL YEAR. THIS POLICY PRESCRIPTION IS MORE IN LINE WITH RECENT AND UNIFORMLY MORE BEARISH PREDICTIONS FROM BOTH OFFICIAL AND PRIVATE SOURCES ABOUT OUTLOOK FOR JAPANESE ECONOMY, NAMELY FOR REAL DECLINE OF GNP BY AT LEAST ONE PERCENT FOR CY 74 (OECD FORECAST - 1.5 PERCENT) AND SLUGGISH UPTURN DEFERRED UNTIL 1975.

4. KEIDANREN CHAIRMAN DOKO, NIKEIREN PRESIDENT SAKURADA, JAPAN CHAMBER OF COMMERCE PRESIDENT NAGANO, TOKYO ELECTRIC POWER CHAIRMAN KIKAWADA, PRECISION INDUSTRY BOARD CHAIRMAN IMASATO, AND JAPAN INDUSTRIAL BANK ADVISOR NAKAYAMA ARE AMONG THOSE WHO HAVE LASHED OUT AT LDP IN RECENT DAYS ABOUT THE LACK OF ATTENTION TO ECONOMIC POLICIES WHILE FACTIONS MANEUVER FOR POSITION IN THE WAKE OF THE MIKI-FUKUDA RESIGNATIONS. FRUSTRATION ON PART OF SOME OF THESE MEN HAS REACHED STAGE WHERE THEY ARE QUOTED IN PRESS AS SPECULATING IN SEMI-PUBLIC FORUMS (BUSINESS SEMINARS ETC.) ABOUT DESIRABILITY OF CREATING TWO CONSERVATIVE PARTIES, ONE MIDDLE OF ROAD AND ONE TO RIGHT. DOKO REPORTEDLY ADVISED BUSINESSMEN'S MEETING IN FUKUOKA THEY COULD NOT DEPEND ON LDP AND IT IS ACCORDINGLY UP TO BUSINESS LEADERS THEMSELVES TO BRING SOME ORDER INTO ECONOMIC SOCIETY (HE DID NOT SAY HOW). NAKAYAMA OF INDUSTRIAL BANK SUGGESTED TO MANAGEMENT SEMINAR THAT HE FELT IF LDP FAILED TO COPE ADEQUATELY WITH ECONOMIC PROBLEMS BUSINESS MIGHT IN FUTURE HAVE TO LOOK TO A COALITION GOVERNMENT MADE UP OF RIGHT WING SOCIALISTS, DSP AND KOMEITO.

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6. COMMENT: FOREGOING CITATIONS REPORTED TO GIVE SOME FLAVOR OF KIND OF DISCONTENT BEING AIRED THSES DAYS. DISAFFECTION OF BUSINESS LEADERS WILL PUT FURTHER PRESSURE ON TANAKA IN COMING MONTHS. WHETHER TANAKA WILL HAVE THE LUXURY OF SOME FURTHER MONTHS TO "STUDY THE SITUATION" BEFORE DECIDING SOME NEW POLICIES WILL DEPEND IN LARGE MEASURE ON WHAT HAPPENS IN THE WORLD ECONOMY. SOME CURRENT ASPECTS OF THE JAPANESE ECONOMIC PICTURE ARE CLEARLY DISTURBING, PARTICULARLY RATE OF INFLATION MUCH WORSE THAN ANY OTHER INDUSTRIALIZED COUNTRY OF ANY SIGNIFICANCE, BUT THERE ARE ALSO NUMBEIOUS STRONG POINTS WHICH SUGGEST THAT BARRING A WORLD RECESSION OF MAJOR PROPORTIONS JAPAN IS BETTER PLACED THAN MANY OTHER COUNTRIES TO SURVIVE ECONOMIC STRAINS OF COMING YEAR. HODGSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, INFLATION, POLITICAL SITUATION, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 AUG 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TOKYO10086
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740210-0907
From: TOKYO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740876/aaaacnuc.tel
Line Count: 169
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 02 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 APR 2002 by shawdg>; APPROVED <25 JUN 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC UNCERTAINTIES ADD TO TANAKA'S POLITICAL PROBLEMS SUMMARY: GOJ INABILITY (OR UNWILLINGNESS) TO DEVELOP A
TAGS: EGEN, PFOR, JA
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005